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## MANAGEMENT LETTER

November 9, 2004

CONFIDENTIAL

Mr. Otto J. Wolff  
Chief Financial Officer and Assistant Secretary for Administration  
U.S. Department of Commerce  
14<sup>th</sup> and Constitution Avenue, N.W.  
Washington, D.C. 20230

Dear Mr. Wolff:

We have audited the consolidated financial statements of the Department of Commerce (Department) as of and for the years ended September 30, 2004 and 2003, and have issued our report thereon dated November 9, 2004. In planning and performing our audits of the Department's consolidated financial statements, we considered the Department's internal control over financial reporting, in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements. An audit does not include examining the effectiveness of internal control, and does not provide assurance on internal control over financial reporting.

During our fiscal year 2004 audit of the Department's consolidated financial statements, we noted one matter involving internal control over financial reporting and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. In our *Independent Auditors' Report*, dated November 9, 2004, we reported that we consider the Department's financial management systems to be a reportable condition, but that we do not consider this area to be a material weakness. Details of our financial management systems findings were reported to the Department in a separate letter.

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls, that in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated financial statements. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might



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be reportable conditions. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our audit procedures were designed primarily to enable us to form an opinion, based on our audit and the reports of other auditors, on the Department's consolidated financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that exist. However, we also take this opportunity to share our knowledge of the Department, gained during our work, to make comments and suggestions that we hope can be useful to you.

Although not considered to be reportable conditions, we noted certain matters involving internal controls and other operational matters, which are presented in Exhibits A through F, attached, for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the Department's internal controls or result in other operating efficiencies. Each exhibit presents the status of prior year management letter comments. We have not considered the Department's internal controls since the date of our report.

We appreciate the courteous and professional assistance that the Department's personnel extended to us to complete our audit timely. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Department's management and the Department's Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

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***Certain Operational and Accounting Handbooks Should be Updated***

Now that the U.S. Department of Commerce (Department or Commerce) has (1) fully implemented the Department-wide financial system, Commerce Administrative Management System (CAMS), and the Sunflower personal property system (a subsidiary ledger for personal property); (2) transitioned to the U.S. Department of Treasury's grant-related system, Automated Standard Application for Payments (ASAP); and (3) prepared comparative quarterly financial statements in accordance with the Office of Management and Budget (OMB); the Department should review the Department's existing operational and accounting handbooks, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements.

Although some of our comments are based on the bureau-level handbooks, manuals, or directives that we observed during our detailed test work in prior years, most manuals need to be addressed at the Department-wide level, to ensure that the information that is required at the Department level is provided in a consistent format and within the timeframes outlined in the Department's *Financial Statement Guidance*, that is updated annually.

Specifically, some of the handbooks, manuals, or directives that we found should be updated on the Department's Office of Financial Management (OFM) website. The Department is aware of this matter and is in the process of updating the following handbooks, which were listed on the OFM website in FY 2004.

- Advances and Reimbursable Handbook;
- Working Capital Fund Handbook;
- Accounting Principles and Standards Handbook; and
- Credit and Debt Operating Standards and Procedures Handbook.

In the prior year, we observed that the following manuals should be updated. In addition, these manuals should be added to the Department's OFM website.

- With the full implementation of CAMS, budget handbooks or manuals should be reviewed and updated at the Department level, to address current procedures in place to be consistent with CAMS budget module user manuals.
- The Department's *Personal Property Management Manual* requires that "Property accountability records be reconciled periodically with the financial control accounts in accordance with procedures established by servicing financial accounting activities." However, the term "periodically" is not defined in terms of time periods, such as monthly or quarterly. Thus, the individual bureaus interpret the interval to complete property reconciliations differently. Additionally, reconciliation procedures are not specific enough to provide for consistent control.
- Clarification should be added to the grants manual for grant file review requirements. Similar to the property manual, the term "periodically" or "annually" is interpreted differently across the Department.

In the prior year, we also observed that the Department-level directive for *Federal Managers' Financial Integrity Act* (FMFIA) is outdated and the bureaus interpreted the self-assessment requirements differently. In lieu of an updated directive, the Department conducted a workshop on August 12, 2004, to

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assist the bureaus with preparing the FMFIA report. While this workshop was necessary, it was conducted too late for bureaus to implement any new self-assessment programs for FY 2004 based on thoroughly reviewing the requirements and evaluating existing control environments. This matter is discussed further in the separate comment, below.

Recommendation:

1. We continue to recommend that the Department's OFM coordinate with all bureaus to review existing operational and accounting handbooks, manuals, and directives, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements and Department-wide use of CAMS.

***Federal Managers' Financial Integrity Act (FMFIA) Oversight Should be Improved***

FMFIA states that by December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency [*Department*] shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement that:

- The Department's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or
- Such systems do not fully comply with such requirements.

In the prior year, we noted that the Department and its bureaus conduct a self-assessment of "systems" related to internal accounting and administrative control but the bureaus do not have a consistent interpretation of the word "systems" as it applies to the FMFIA. Congressional intent for this act was not limited to information technology (IT) systems, but is intended for agencies to include in their self-assessments a review of the "methods" of internal accounting and administrative controls.

Based on our limited review in FY 2004, we found that the bureaus considered non-IT controls as well as IT controls. However, while each bureau has a central point for gathering information for the FMFIA report, the level of documentation and interaction among the stakeholders of the FMFIA process at the bureau-level is inconsistent across the Department. For example, the National Oceanic and Atmospheric Administration (NOAA) has a central database for tracking all deficiencies. The Bureau of the Census (Census) and the National Institute of Standards and Technology (NIST) did not have a central database for tracking all deficiencies. However, these bureaus have not identified any material weaknesses, which must be tracked for FMFIA. Without a formal process for tracking deficiencies, it is not clear that all deficiencies are being reported to a central point for consideration of findings individually and in aggregate. The inconsistency in addressing the FMFIA process may be due to outdated handbooks and manuals, which should include a schedule of the assessment programs required and evaluation timeframe, related to all accounting and control procedures. The need for updated handbooks and manuals is discussed in the previous section.

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Recommendations:

We continue to recommend that the Department:

2. Take a more proactive role in coordinating the annual FMFIA self-assessments and ensuring that the intent of the Act is followed.
3. Review and revise the Departmental directive to assist the bureaus with the timing, extent, and performance of the self-assessments.



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<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
A1	Certain Operational and Accounting Handbooks Should be Updated	The Department's OFM should coordinate with all bureaus to review existing operational and accounting handbooks, manuals, and directives, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements and Department-wide implementation of CAMS.	Open (see comments in Exhibit A).
A2 – A3	Federal Managers' Financial Integrity Act Oversight Should be Improved	The Department should take a more proactive role in coordinating the annual FMFIA self-assessments and ensuring that the intent of the Act is followed, and review and revise the Departmental directive to assist the bureaus with the timing, extent, and performance of the self-assessments.	Open (see comments in Exhibit A).
A4	Reviews over Performance Measures Should be Improved	ITA, NIST, and BEA should work with the Office of Management and Organization (OMO) to develop and implement a formal review process to ensure that the performance measures results reported to OMO for the Performance and Accountability Report are accurate.	Completed.

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***Accounting for Construction Work-in-Progress (CWIP) Should be Improved***

The National Oceanic and Atmospheric Administration (NOAA) has made improvements in its accounting for Construction Work-in-Progress (CWIP) in FY 2004; however, we continued to identify exceptions in this area. Specifically, we noted the following:

- 4 out of 38 CWIP projects tested were incorrectly listed as active projects in the June 30, 2004, CA500D, *Construction Work in Progress Report*. These projects were either completed prior to June 30, 2004, or incorrectly classified as CWIP projects.
- 2 out of 6 transactions listed on the September 30, 2004, *Unreconciled Procurement Request* listing represented internal use software development costs incurred prior to September 30, 2004. These costs should have been classified as CWIP costs when incurred.

**Recommendations:**

We continue to recommend that the NOAA Finance Office and the appropriate CWIP activity managers:

1. Transfer costs of CWIP projects immediately to personal property once a constructed property item is placed into service. If the CWIP activity manager requires time to close the CWIP contracts, a preliminary Form 37-6 should be submitted to the Personal Property Office. A final Form 37-6 should be completed once all contracts are closed and finalized, and any cost adjustment should be recorded.

We recommend that the NOAA Finance Office:

2. Ensure that adjustments requested by the CWIP activity managers are recorded timely and any follow-up actions, such as additional information requests, are immediately communicated and taken.

We also recommend that the CWIP activity managers:

3. Ensure that all *Unreconciled Procurement Request* transactions relating to CWIP are timely investigated and resolved. CWIP activity managers should work in conjunction with the NOAA Personal Property Office to ensure that all required information is submitted.

***Controls over Personal Property Should be Improved***

During our test work over personal property, we noted the following:

- 6 out of 23 *Physical Inventory Report Certifications*, used by NOAA's Line Offices to verify the Sunflower system information, reported data that differed from the Sunflower system as of June 30, 2004. The data included object classification codes and useful lives, and did not impact the financial statement data.
- The Sunflower system has a limitation whereby if the acquisition cost is subsequently increased (i.e., upward adjustment) the related accumulated depreciation balance is not properly adjusted. The Sunflower system treats the upward adjustment on a proactive basis. The accumulated depreciation

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balance is manually adjusted by NOAA's Personal Property Office (PPO) for all items with upward adjustments to the acquisition cost.

- The PPO authorized a Sunflower programmer to assign useful lives to future personal property additions. However, in August 2003, the programmer inadvertently changed existing property useful lives in the Sunflower system, which overstated fiscal year 2004 depreciation expense and the related accumulated depreciation balance by \$68,617,691. NOAA recorded an audit adjustment at September 30, 2004, to correct its financial statements for this error.
- The personal property roll forward as of June 15 and September 15, 2004, did not properly begin with prior year audited balances and did not reconcile to the amounts included in the NOAA Finance Office reconciliation to CAMS, NOAA's general ledger system.
- The PPO often receives the supporting documentation needed to enter the personal property data into Sunflower from NOAA Line Offices months, or even years, after the asset has been declared operational and placed into service. Although the total adjustment resulting from such delays in FY 2004 was considered immaterial for recording purposes, future delays could materially misstate financial statements.
- In FY 2004, two supervisory positions remained vacant within the PPO: the NOAA Property Branch Chief and Facilities Division Chief. The NOAA Property Branch Chief position was temporarily filled with two different rotations, the first of whom was the NOAA Headquarters Property Management Officer, who already had a full workload. Although all transactions processed during FY 2004 underwent review procedures, the PPO was severely constrained when working with limited staff knowledgeable in Sunflower and personal property accounting. Various spreadsheets and schedules received during the audit were incorrect, and could have been prevented had the proper oversight and review, required by NOAA's personal property policies and procedures, been in place.

Recommendations:

We recommend that the NOAA Personal Property Office (PPO):

4. Work with Property Custodians to ensure that those responsible for certifying the physical inventory in their custodial areas reconcile all data included on the *Physical Inventory Report Certifications* to their records at least annually.
5. Ensure that the Sunflower system is adequately modified to correct the accumulated depreciation limitation for all adjustments. The modifications should include manual computation for all personal property items with upward changes in acquisition costs and other information that is needed for the computation of accumulated depreciation until the system modifications are made.
6. Perform review procedures to ensure any changes in Sunflower data fields are immediately investigated and explained. These procedures can be system generated, i.e., exception reports run against data fields that should not be changed unless approved. The PPO should also perform quarterly analyses of depreciation expense by comparing the present quarter or year to prior year to ensure any significant or unusual fluctuations are investigated and explained.
7. Work with the respective Line Offices to ensure information is submitted to the PPO for recording, on a timely basis and in accordance with its policies and procedures. All capitalizable property transferred to NOAA should be recorded as an asset when title passes to NOAA.

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8. Work with NOAA management to permanently fill the vacant supervisory positions within the PPO and to reanalyze the workload for all people in that office. This will enable the PPO to ensure adequate supervisory reviews are performed over all personal property transactions.

We recommend that the NOAA Personal Property Office and NOAA Finance Office:

9. Meet on a monthly basis to discuss any differences resulting from the reconciliation between the Sunflower system and CAMS. This meeting will enable both parties to ensure that the data being reconciled is current and that all differences are immediately identified, investigated, and resolved.

***Personal Property Lease Accounting Should be Strengthened***

The NOAA Procurement Office has made numerous improvements in preparing and completing Lease Determination Worksheets (worksheets); however, we noted the following during our test work over two new operating personal property leases in FY 2004:

- 1 worksheet was finalized and reviewed on October 13, 2004; however, the reviewer could not answer questions regarding the nature of the leased asset, the supporting documentation for the fair market value, and other lease questions. While a reviewer is not expected to be fully knowledgeable on all aspects of a complex lease, the reviewer should be familiar with the information used to complete the worksheet.
- The fair market value used in the worksheet for one new FY 2004 lease represented the same value assigned to an identical asset leased in FY 2002. However, the value assigned to the FY 2004 leased asset did not reflect market changes or inflation that may have occurred between the two fiscal years. We determined that the FY 2004 lease classification would not have changed had the fair market value been properly adjusted.

**Recommendations:**

We recommend that the NOAA Procurement Office:

10. Ensure that all information entered on the Lease Determination Worksheets is supported by documentation that is retained in the respective lease folder before the worksheet is approved by the reviewer.
11. Perform periodic reviews to ensure the controls are operating and that all new leases are properly accounted for.
12. Ensure that all worksheet responses for values use current year dollars.

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***Accounting for Grant Advances and Payables Should be Improved***

During our test work over NOAA's grants management process, we noted the following:

- 4 of 5 expired grants selected for test work were not yet closed, although they were expired for more than 180 days and the necessary documentation had been received from the grantees. Further investigation revealed that there is a backlog in closing out expired grants dating back to October 31, 2002. At September 30, 2004, we noted that of the 759 grants that were expired, 242 grants were expired for more than 180 days for \$5,218,927 and were not yet closed.
- 7 of 35 active grant files reviewed did not contain the *Federal Cash Transactions Report* (SF-272) in the files, as required. For 5 out of the 7 grants, there was no evidence of the Grant Management Division's (GMD) attempt to obtain the missing reports.
- For 1 of 35 active grant tested, the CD435 *Procurement Request* was not date-stamped, as required.

**Recommendations:**

We continue to recommend that the NOAA GMD:

13. Develop a consistent method of identifying expired grants and enforce timely administrative closeout of these grants, to ensure that all remaining funds are deobligated.
14. Implement adequate procedures to monitor its grants to ensure that all required monitoring reports are received from grantees timely.

We also recommend that the NOAA GMD:

15. Establish an internal review process to ensure that grant documentation is systematically reviewed to ensure compliance with applicable policies and procedures.

***Procedures for Aging Receivables Should be Reviewed***

NOAA's procedures for aging receivables should be reviewed to ensure that adequate reports are generated from CAMS and available for use by decision makers. During FY 2004, NOAA's Financial Statements Branch used the GLD 171B, *Accounts Receivable Aging Report*, to determine the allowance for losses against receivables for financial statement purposes. During our audit, we noted that this report included several credit amounts, because collections or other credit adjustments were not recorded in the same categories as the related receivables balances. In addition, we noted that other debit amounts were listed under the "not aged" category. As a result, the General Ledger Reporting Branch had to manually adjust the aging analysis to determine the proper allowance for doubtful accounts receivable as of September 30, 2004.

**Recommendation:**

16. We recommend that the General Ledger Branch and Accounts Receivable Branch continue to work closely with the CAMS Office to further enhance the accounts receivable module to ensure that reported balances are aged properly.

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***Controls over Physical Inventory Counts Should be Strengthened***

We noted that 1 of 40 items tested during our inventory count procedures at the National Logistics and Support Center (NLSC) differed from the Consolidated Logistic Support (CLS) system count. The CLS system was not updated as of the inventory observation date of June 15, 2004, for the shipment of an item that occurred on May 5, 2004.

Recommendation:

17. We recommend that the NLSC ensure all Bills of Lading received are compared to the items being shipped. All incorrect Bills of Lading should either be returned for correction, or adjusted by the NLSC warehouse immediately. Once the Bills of Lading are received, the CLS inventory system should be immediately updated.

***Controls over Payroll Should be Strengthened***

During our internal control test work over 43 payroll transactions selected for testing at NOAA, we noted the following:

- In pay period 26, one employee was allowed to carry forward a balance of 242.5 hours of annual leave. However, the maximum number of hours employees are allowed to carry forward is 240 hours.
- In 1 of 43 cases tested, the timekeeper initialed the time sheet of one employee and that employee was paid despite the fact that the employee's supervisor did not sign and date the time sheet as evidence of proper approval.

Recommendations:

We recommend that:

18. The Technical Service Unit review all manual adjustments to the payroll system to ensure that accrued annual leave balances carried forward are accurately reported.
19. NOAA's management ensure that all employees' timesheets are properly approved by their direct supervisors before their paychecks are disbursed, and that timekeepers only initial time sheets that are signed and dated by the employee's supervisor.

***Accounting for Fund Balance with Treasury and Other Cash Should be Improved***

During our test work over the financial management process, we noted the following:

- Undeposited Collections (account 1110) included \$543,003 which was carried forward from FY 2002. This amount does not represent an undeposited collection, but rather an amount not properly transferred during the CAMS conversion, which occurred on October 1, 2003.
- Suspense Account 13F3875 (FC 65) included an unreconciled difference of \$989,202, which was carried forward for at least one year due to the CAMS conversion.

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Recommendations:

We recommend that the NOAA Funds Management Branch:

20. Record all adjustments timely, and ensure all amounts included in the Other Cash account represent cash held by NOAA.
21. Investigate and timely resolve the unreconciled difference identified in the Suspense Account, and adjust the general ledger accordingly.

***Internal Controls and Accounting for Deferred Revenue Should be Strengthened***

During our test work over deferred revenue, we noted the following:

- 1 of 9 projects selected for testing, with a balance of \$375,326, related to an agreement that expired on September 30, 1995. However, NOAA did not liquidate the deferred revenue balance until August 24, 2004.
- At the end of FY 2002, the CAMS system did not automatically create the carry forward entry for deferred revenue balances related to unobligated budgetary resources, totaling \$39.6 million, for certain projects. As recommended by the NOAA CAMS team, the Financial Reporting Division manually recorded the total credit balances under one defaulted project number with a debit to Fund Balance with Treasury and, due to system limitations, manually recorded the offsetting debit using a different default project number with a credit to Fund Balance with Treasury. Although these two manual entries net to zero in the deferred revenue account, it results in an improper matching at the project level.

Recommendations:

We recommend that:

22. The NOAA Line Offices should periodically review their projects with advances and deferred revenue balances and routinely alert the Accounts Receivable Branch when projects should be closed and when to refund the sponsors for any remaining advance or deferred amounts.
23. The NOAA CAMS team ensure that the debit and credit balances for the projects identified in our test work are properly matched using the same project number.

***Internal Controls over Budgetary Resources Should be Improved***

During our test work, we noted a difference of \$928,064 between the net transfers reported on the SF-133 and the *Funds Control Document* (obligations to appropriations document) for fund code 29. This amount was transferred from fund code 28 (Treasury Fund Symbol 1304/061460) to fund code 29 (Treasury Fund Symbol 1304/061450) during FY 2004, and was inadvertently omitted from the detailed *Funds Control Document*. However, we noted that the transfer was recorded properly on the *Funds Control Summary Report*.

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Recommendation:

24. We recommend that NOAA strengthen its internal review process to ensure that a supervisor systematically reviews the *Funds Control Document* to ensure that discrepancies are identified and cleared on a timely basis.

***Accounting for Supplementary Stewardship Reporting Should be Strengthened***

During our test work over supplementary stewardship reporting, we noted that NOAA does not report performance outcomes and measures for its stewardship investment in human capital, as required by Statements of Federal Financial Accounting Standards (SFFAS) Number 8, *Supplementary Stewardship Reporting*.

Recommendation:

We continue to recommend that:

25. NOAA initiate procedures to report performance outcomes and measures for its stewardship investment in human capital. This includes identifying the performance outcomes and measures, and requiring the respective departments to gather the information necessary to report this information for the FY 2005 financial statements.



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National Oceanic and Atmospheric Administration**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
B1 – B4	Accounting for Construction Work-in-Progress Should be Improved	Verify the valuation of the CWIP balances in the CA500D Report, by ensuring that all adjustments identified quarterly and at year-end are posted timely by the NOAA Finance Office.	Completed.
		Transfer costs of CWIP projects immediately to personal property once a constructed property item is placed into service. If the CWIP activity manager requires time to close the CWIP contracts, a preliminary Form 37-6 should be submitted to the Personal Property Office. A final Form 37-6 should be completed once all contracts are closed and finalized, and any cost adjustment should be recorded.	Open (see comments in Exhibit B).
		Ensure that reconciliations are prepared for all CWIP projects, and adjustments posted to remove any CWIP balances that are not related to the construction of property.	Completed.
		Ensure that all uncaptialized negative cost balances are identified and adjusted, timely.	Completed.
B5	Controls over Deferred Maintenance Should be Improved	The NOAA Real Property Office perform periodic reviews of the deferred maintenance listings to ensure that the project listings are complete.	Completed.

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<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
B6 – B9	Controls Over Personal Property Should be Improved	The NOAA Personal Property Office and Finance Office:  Work with the respective line offices to ensure information is submitted to the Personal Property Office for recording, on a timely basis.  Ensure that all capitalizable property transferred to NOAA is recorded as an asset when title passes to NOAA.  Ensure that all unreconciled procurement requests are reviewed at fiscal year end for any capitalizable property items not properly recorded.  The NOAA Personal Property Office perform manual review procedures to ensure that all prior period adjustments represent valid adjustments to the prior year balances and that the property roll-forwards are subjected to supervisory review.	Open (see comments in Exhibit B).  Open (see comments in Exhibit B).  Open (see comments in Exhibit B relating to CWIP)  Open (see comments in Exhibit B).
B10 – B16	Personal Property Lease Accounting Should be Strengthened	The NOAA Personal Property Office and the Procurement Office:  Work with the Finance Office to improve the timely communication of changes to operating and capital leases, as well as to ensure that new leases are evaluated and recorded timely. This is especially	Completed.

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<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
		important because the Sunflower system computes depreciation using the information input into the system.	
		Work together to improve the controls over accounting for personal property leases. These controls should include periodic reviews to ensure the controls are operating and that all new leases are properly accounted for and that all changes to leases are timely communicated.	Open (see comments in Exhibit B).
		Ensure that all financial statement footnote disclosures are updated to reflect current future payment estimates.	Completed.
		The NOAA Procurement Office:	
		Place a notation on the revised worksheet stating when the worksheet was revised, why it was revised, and attach supporting documentation for the change.	Completed.
		Ensure that the preparer of the worksheet understands all aspects of the contract as well as the information needed to determine the proper classification of the lease as capital or operating.	Open (see comments in Exhibit B).
		The NOAA Personal Property Office:	
		Ensure that the Sunflower System is	

**U.S. Department of Commerce  
Status of Prior Year Management Letter Comments, Continued  
National Oceanic and Atmospheric Administration**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
		adequately modified to correct the accumulated depreciation limitation as soon as possible. Manual computations will be needed for accumulated depreciation until the system modifications are implemented.	Completed.
		Provide updated capital lease roll forward information to the NOAA Finance Office in a timely manner to ensure the information in the general ledger is properly stated.	Completed.
B17 – B18	Environmental Liability Controls Should be Improved	The NOAA Environmental Compliance, Health, and Safety Office ensure that all costs expected to be incurred to complete environmental liabilities are properly identified and recorded in the financial statements. Ensure that all costs under an environmental project are identified and captured, even when the costs will be incurred by different offices. Communication should be maintained between the various offices involved in the cost estimate to ensure that all costs are captured, and responsibilities are clearly defined. A central point of contact should be appointed to ensure all costs are identified and captured, NOAA-wide.	Completed.

**U.S. Department of Commerce**  
**Status of Prior Year Management Letter Comments, Continued**  
**National Oceanic and Atmospheric Administration**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
B19 – B23	Accounting for Grant Advances and Grant Payables Should be Improved	<p>The NOAA GMD establish timelines for its staff to request closeout documentation on expired grants.</p> <p>Develop a consistent method of identifying expired grants and enforce timely administrative closeout of these grants to ensure that all remaining funds are deobligated.</p> <p>Implement adequate procedures to monitor grants in order to ensure that all reports are received from grantees, timely.</p> <p>Establish an internal review process so that when data is entered into NOAA's Grant System, a supervisor systematically reviews it.</p> <p>Implement procedures to ensure that grantees submit their OMB Circular A-133 audit reports, timely. In cases where the Single Audit report was not submitted to the Federal Audit Clearinghouse database, NOAA's GMD should obtain it directly from the grantees. If the grantee has not completed its Single Audit and GMD decides to issue the grant award, the award document should include a special condition to inform the grantee that the report must be submitted within a specified time, or the funding will be placed in a "hold" status.</p>	<p>Completed.</p> <p>Open (see comments in Exhibit B).</p> <p>Open (see comments in Exhibit B).</p> <p>Completed.</p> <p>Completed.</p>

**U.S. Department of Commerce  
Status of Prior Year Management Letter Comments, Continued  
National Oceanic and Atmospheric Administration**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
B24 – B27	Controls over Real Property Transactions Should be Improved	The NOAA Real Property Office ensure that all information is timely communicated from the line offices to the Real Property Administrative Support Centers and Headquarters Real Property Offices to ensure accurate accounting. Coordinate efforts with the NOAA Financial Reporting Branch to ensure that all updated information is accurately prepared for the real property roll forward and the information in the general ledger is properly stated. Ensure that all certifications are timely performed on the Form 37-6, and that all information is received by the Finance Office timely, to ensure accurate accounting for completed property projects. Perform periodic reviews of all real property capital and operating leases to ensure all activity is properly recorded.	Completed.
B28	Accounting for Operating Materials and Supplies Allowance Should be Strengthened	NOAA's National Weather Service review the obsolescence reserve methodology and ensure it is consistently applied at the NLSC and NRC at a "subsystem level" which results in a more precise estimate of the decommissioning reserve.	Completed.

**U.S. Department of Commerce**  
**Status of Prior Year Management Letter Comments, Continued**  
**National Oceanic and Atmospheric Administration**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
B29 – B30	Procedures for Aging Receivables Should be Reviewed	The General Ledger Branch and Accounts Receivable Branch work closely with the CAMS Office to further enhance the accounts receivable module to ensure that balances are aged properly. NOAA's Finance Office should periodically review the aging report, and (1) take corrective action on delinquent accounts, and (2) adjust the allowance for uncollectible account provision.	Open (see comments in Exhibit B).
B31 – B32	Accounting for Supplementary Stewardship Reporting Should be Strengthened	NOAA's should initiate procedures to report performance outcomes and measures for its stewardship investments. This includes identifying the performance outcomes and measures, and requiring the respective departments to gather the information in its necessary to report this information in its financial statements.	Open (see comments in Exhibit B).
		NOAA's Personal Property Office ensure that heritage property information provided to the Financial Reporting Division is complete and accurate; and the year-end reporting process is properly coordinated.	Completed.

**Department of Commerce  
FY 2004 Management Letter Comments for the  
National Institute of Standards and Technology and NIST-Serviced Bureaus**

***Controls over the Review of Time and Attendance (T&A) Reports Should be Improved***

During our control test work over payroll transactions, we noted that for pay period 26, one of the National Telecommunications and Information Administration (NTIA) employees' Time and Attendance (T&A) Report was signed but not dated by the supervisor. Therefore, we could not verify that the T&A was approved by the supervisor in a timely manner.

Recommendation:

1. We recommend that management ensure that all employees' T&A Reports are signed and dated by the supervisor in a timely manner.

***Controls over the Reconciliation of Property, Plant, and Equipment Should be Improved***

During our test work over the National Institute of Standards and Technology (NIST)'s personal property reconciliation (Accounts 1750, 1720.02, 1720.03) for the month of June 2004, we noted that NIST did not start its process to resolve unreconciled items for FY 1999 for a total of \$186,107 until February 2003, and did not complete the reconciliation until August 2004.

Recommendation:

2. We recommend that NIST ensure that differences noted in the monthly personal property reconciliations are resolved timely.

***Controls over the Review of ELGP Loan Guarantee Liability Account Should be Improved***

During our test work over subsidy estimates for the Emergency Loan Guarantee Program (ELGP), we noted that the FY 2004 downward re-estimates were incorrectly calculated for the Oil and Gas Program. ELGP recorded an adjustment by taking the FY 2004 total re-estimate less the original re-estimate amount. However, because the Loan Guarantee Liability account is adjusted each year, the FY 2004 adjustment amount should have been calculated by taking the FY 2004 total re-estimate less the FY 2003 total re-estimate.

Recommendation:

3. We recommend that the NIST Financial Statements Group ensure proper review of the Loan Guarantee Liability account and related calculations to ensure that the annual subsidy re-estimates are properly recorded.

***Corrective Action Plan for Prior Year's Finding Should be Implemented***

During our reimbursable agreement internal control test work and follow-up on the prior year's finding, we noted that NIST did not start to implement its corrective action plan for the prior year reimbursable agreement finding until October 14, 2004. Our prior year recommendation related to requiring agencies to forward, to NIST, reimbursable agreements immediately after they are executed.



**Department of Commerce  
FY 2004 Management Letter Comments for the  
National Institute of Standards and Technology and NIST-Serviced Bureaus, Continued**

Recommendation:

4. We recommend that NIST ensure that its corrective action plan for obtaining reimbursable agreement documents is implemented timely.

**U.S. Department of Commerce**  
**Status of Prior Year Management Letter Comments**  
**National Institute of Standards and Technology and NIST-Serviced Bureaus**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
C1	Reconciliation of Personal Property between the Subsidiary and the General Ledgers Needs to be Improved	NIST Finance Division implement a policy that requires the reconciliation between the personal property subsidiary and general ledgers for all funds.	Completed.
C2	Reconciliation Differences with the Technology Administration's Fund Balance with Treasury Should be Resolved	NIST, in conjunction with the Department of Commerce Office of Financial Management, contact the Department of Treasury to successfully resolve the issue with the Technology Administration's SF-6653, as soon as possible.	Completed.
D1	Reporting of Differences Noted in the Reconciliation of Fund Balance with Treasury Needs to be Improved	NIST/CAMS take proper action to ensure that differences are properly classified on the SF-6652.	Completed.
D2	Management Review Controls Related to Signing and Dating the Treasury SF-224 Needs to be Improved	NIST's Financial Services Group (FSG) management implement a supervisory review to ensure that the SF-224 is signed and dated before submission to Treasury.	Completed.
D3 – D4	Reimbursable Agreement Amounts Should be Recorded as Unfilled Customer Orders, Timely	The performing agency forwards all reimbursable agreements to the FSG immediately after they are executed. The FSG should monitor performing agencies to ensure that reimbursable agreements are received and recorded properly and timely.	Open (see comments in Exhibit C).

**U.S. Department of Commerce  
Status of Prior Year Management Letter Comments, Continued  
National Institute of Standards and Technology and NIST-Serviced Bureaus**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
D5	Accounting for the Defaulted Loan Guarantee Liability Needs to be Improved	The ELGP personnel review the guidance on recording defaulted loan guarantees and ensure that proper amounts are transferred to the credit program subsidy allowance account for future defaults.	Completed.
D6	Accounting for Subsidy Estimates Needs to be Improved	The ELGP personnel determine the loan disbursement amounts for future loan guarantee cohorts, and record a subsidy only on the amounts disbursed.	Completed.
D7	Accounting for Accruals Needs to be Improved	The program office check and see if recently submitted invoices have been processed before preparing the accrual estimate. The program office should include any unpaid invoices in the accrual estimate in addition to the invoices they expect to receive related to the fiscal year for services provided.	Completed.

Note that prior year recommendations with "C" reference numbers relate to comments reported in the FY 2003 management letter for NIST only. Prior year comments with a "D" reference number relate to comments reported in the FY 2003 management letter for NIST-serviced Bureaus. In FY 2004, Exhibit C reports all open comments for NIST and NIST-serviced Bureaus.

**U.S. Department of Commerce  
FY 2004 Management Letter Comments for the  
Bureau of the Census**

***Accounting for Accruals Need to be Improved***

During our test work over undelivered orders at Census, we noted that a fourth quarter accrual was not recorded by Census for contract number 50YABC066009 with the University of Maryland, who is providing training services to Census through FY 2005. Census has been billed for this contract through June 30, 2004, however Census did not receive the bill for July through September 2004. As a result, Census should have recorded an estimated accrual in the amount of \$525,300.

Additionally, during our test work over payroll accruals, we noted that the estimated payroll liability for pay period 19 did not include four estimated days for one division and three estimated days for another division. The estimated payroll accrual reported for Census in Commerce's FY 2004 *Performance and Accountability Report* was \$16.9 million, whereas we calculated that the estimated payroll costs should have been \$18.1 million.

**Recommendation:**

We recommend that Census:

1. Ensure that thorough reviews of estimated accruals are conducted and recorded quarterly.
2. Review the payroll liability calculation methodology and ensure that the calculation considers the appropriate number of days in the payroll period.

***Controls over Accounting for Reimbursable Agreement Authority Should be Strengthened***

During our test work over reimbursable agreements, we noted the following:

- Reimbursable agreement authority was not recorded on a timely basis for 2 out of 41 transactions. Specifically, budget authority of \$22,618 for one agreement was recorded after the period of performance. Although the period of performance for this agreement was from April 6 through September 30, 2003, the BC-505 was not signed until October 27, 2003, and the budget authority was not recorded until October 30, 2003. The agreement authority for another agreement was signed on July 9, 2002, but was not recorded until October 23, 2003. That agreement expired on September 30, 2003.
- A deficit balance of \$2,007 existed for one agreement in the "Available for Obligation" column of the Reimbursable Project Management (RPM) report as of March 31, 2004.
- An active Temporary Work Agreement (TWA) or BC-505A form for one project was not documented, although services were provided to the customer for the period of January through April 2004.
- The customer did not sign the BC-505A form for 4 out of 41 transactions.
- The period of performance for one agreement was improperly recorded in the Reimbursable Agreement Maintenance Lookup Screen (CMCG007). Specifically, this reimbursable agreement had a period of performance of January 1 to September 30, 2004; however the period of performance recorded in the system was December 1, 2003 to September 30, 2004.

**U.S. Department of Commerce  
FY 2004 Management Letter Comments for the  
Bureau of the Census, Continued**

Recommendations:

3. We recommend that Census ensure that reimbursable agreement authority is recorded on a timely basis.
4. We recommend that Project Managers periodically review the RPM report to ensure that all reimbursable agreements are timely and properly recorded in the system. In addition, we recommend that someone other than the preparer review cost estimates for reimbursable agreements.
5. We recommend that Census ensure that a TWA or a BC-505A is in place prior to the start of any related work. In addition, we recommend that Census ensure that work is not performed for more than 90 days when a permanent agreement is not authorized, regardless of the customer's request, unless the Comptroller allows an exception from the 90-day limitation based on the customer's request. However, the exception should state the specific timeframe allowed.
6. We recommend that Census ensure that procedures for reimbursable work are performed according to the *Policies and Procedures Manual* and that Census should not execute a reimbursable agreement without a complete and signed BC-505A, unless authorized by the Census Bureau Legal Office and Budget Division.
7. We recommend that the sponsoring division ensure that the periods of performance entered in the system agree to the periods of performance in the reimbursable agreement.

***Accounts Receivable Aging Report Needs to be Finalized***

During our review of the billed accounts receivable aging report as of August 30, 2004, we noted that:

- Receipts and adjustments are not netting properly.
- Receivables from the public are not distinguishable from receivables from Federal entities. The Finance Division's Information Requirements Analysis Office communicated to us that CAMS can summarize the Federal and non-Federal receivables; however this breakout can not be verified due to the matching issues noted above.

Based on our prior year finding, Census and the Department are aware of these issues and have been developing a new billed accounts receivable aging report. The CAMS Support Center (CSC) has provided Census with a preliminary copy of a new billed accounts receivable aging report, which categorizes the receivable between Federal and non-Federal components. However, there remains matching issues due to the way the conversion took place.

Recommendation:

8. We recommend that the Census Finance Division and the CSC continue to coordinate and finalize the new billed accounts receivable aging report.

**U.S. Department of Commerce  
FY 2004 Management Letter Comments for the  
Bureau of the Census, Continued**

***Accounting for Accounts Receivable and Deferred Revenue Needs to be Strengthened***

During our review of the accounts receivable and deferred revenue balances as of June 30, 2004, we noted that the deferred revenue balances for two projects were not liquidated timely, resulting in an overstatement of \$6,549,046 (combined total). We learned that part of this issue was due to an incomplete conversion of data from the old accounts receivable module to the new accounts receivable module. A follow-up review in October 2004 revealed that deferred revenue for one of the projects was still overstated by \$107,904 due to a prior year cost adjustment that was posted after the carryover was performed, resulting in an inability for the system to liquidate the cost.

Based on our additional test work over accounts receivable and deferred revenue balances as of September 30, 2004, we also noted two projects had a combined overstatement of \$1,248,712 due to the "hold status" that the sponsoring division placed on the project in error and two other projects had a combined understatement of \$223,147 due to a chargeback from the customer (that is, a refund processed via the Intragovernmental Payment and Collection system) that was incorrectly posted to deferred revenue.

Recommendations:

We recommend that Census ensure that:

9. The cost adjustments are posted before the carryover is performed.
10. Projects are properly liquidated.
11. Chargebacks for earned revenue are posted to the accounts receivable.

***Fund Balance with Treasury Reconciling Items Should be Adjusted to the General Ledger, Timely***

During our test work over Fund Balance with Treasury, we noted that there were 23 unresolved items outstanding over 90 days as of March 31, 2004, for approximately \$97,000 and 9 unresolved items outstanding over 90 days as of June 30, 2004, for approximately \$141,000. As evidenced by the decrease in the number of unresolved items over 90 days outstanding, Census has been researching these matters for resolution, but has not yet completed this process.

In addition, we noted that two items totaling \$291 from the October 2003 *Statement of Differences* was not resolved until March 2004, and 4 items totaling \$794 from the January 2004 *Statement of Differences* was not resolved until June 2004.

Recommendation:

12. We recommend that Census continue to have a bi-weekly meeting with all of the Finance Division sections to discuss reconciling items and continue to resolve reconciling items within 90 days.

**U.S. Department of Commerce  
FY 2004 Management Letter Comments for the  
Bureau of the Census, Continued**

***Accounting for Equipment Trade-ins Should be Improved***

During our test work over personal property, we noted the following:

- There was insufficient documentation authorizing the trade-in of Census equipment with the vendor for credit towards the purchase of other equipment. For the traded-in property item, Census did not complete a CD-50, *Personal Property Control Form* or CD-509, *Property Transaction Request Form*. In addition, the Property Management Officer or the Contracting Officer did not prepare a written determination to allow for the property trade-in.
- The acquisition value of equipment that Census acquired through an exchange was incorrectly recorded in the Automated Property Management System. Specifically, Census equipment, which had an original cost of \$550,000 and a net book value of \$73,352, was exchanged for similar equipment. Census treated this transaction as an even exchange. However, Census recorded the equipment acquired with a cost of \$550,000, the cost of the surrendered equipment that was purchased in 1999, and recorded no accumulated depreciation. Census should have recorded the cost of the equipment acquired at the fair value of the equipment surrendered at the time of exchange. If the fair value of the equipment acquired is more readily determinable than that of the equipment surrendered, the recorded cost should be the fair value of equipment acquired. If neither fair value is determinable, the cost of the equipment acquired should be the cost recorded for the equipment surrendered net of any accumulated depreciation.

**Recommendations:**

We recommend that Census:

13. Ensure that the authorization of all trade-in equipment is properly documented, based on the *DOC Property Management Manual*.
14. Update the *Census Bureau Administrative Manual* (K-9) to clarify the documentation requirements for disposal of property as outlined in the *DOC Property Management Manual* or add a reference to the specific paragraph in the *DOC Property Management Manual*.
15. Provide additional training for Census personnel regarding the acquisition and disposal of personal property in FY 2005 and thereafter, as planned.
16. Record the cost of the equipment acquired through exchange either at the fair value of the equipment surrendered or the fair value of equipment acquired, whichever is more readily determinable. If neither fair value is determinable, we recommend that the cost of the equipment acquired be recorded at the net book value of the equipment surrendered.

***Controls over General Service Administration Leases Schedules Should be Strengthened***

During our test work over disclosures for operating leases with the General Services Administration, we noted the following:

- The third quarter lease schedule had a mathematical error. Based on adding the detailed lease schedule, we calculated \$31,039,861 as the total FY 2005 estimate versus Census' calculation of \$31,333,291.

**U.S. Department of Commerce  
FY 2004 Management Letter Comments for the  
Bureau of the Census, Continued**

- The fourth quarter GSA lease schedule estimated future lease payments did not agree to the supporting documentation or no supporting documentation was provided for 7 out of 10 sampled items.
- One lease schedule tested had square footage listed as 11,655, versus 7,335 shown in the Occupancy Agreement. However, we determined that the estimated future lease payment disclosures are consistent with the Occupancy Agreement.

Recommendation:

17. We recommend that Census conduct a detailed review of all of its lease disclosures to ensure that all estimates and changes in estimates are properly documented and reviewed by supervisory personnel.

***Receipt Dates for Electronic Transmissions Need to be Resolved***

During our test work over cash disbursements, we noted that a credit card payment made to Citibank Government Commerce Services was not paid in accordance with the *Prompt Payment Act*. On a monthly basis, Census' Systems Division receives a Government Travel Account Invoice (GTA) file, which lists all airline tickets issued to Census employees for travel, from the SATO travel agency. When the file is received by the Systems Division, it is converted into a format that will allow the file to be interfaced with Census' Commerce Administrative Management System (CAMS). After the file has been converted, an e-mail is sent from the Systems Division to the Finance Division informing them that the file is available to be interfaced with CAMS.

On July 20, 2004, an e-mail was sent from the Systems Division to the Finance Division stating that the file was available for interfacing into CAMS. However, the file was not uploaded into CAMS until July 26, 2004. CAMS automatically calculated the 30-day payment period from July 26 instead of July 20, 2004; because the receipt date was based on the interface processing date. As a result, the bill was paid on August 25, 2004. The payment did not include *Prompt Payment Act* interest nor was an accrual made.

According to the Office of Management and Budget, 5 *CFR Part 1315, Prompt Payment Act* Section 4, Census should have used the date of receipt of the readable transmission as the starting period for the *Prompt Pay Act* calculation.

Recommendation:

18. We recommend that the Census Systems Division upload the GTA file into CAMS on the date the file is available for interfacing, when possible. In addition, we recommend that the Finance Division and the Systems Division develop a way for CAMS to recognize the actual date of receipt of invoices or electronic transmission as the "received date" noted in CAMS, to ensure that CAMS accurately calculates the payment due date.



**U.S. Department of Commerce  
Status of Prior Year Management Letter Comments  
Bureau of the Census**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
E1	Controls over Internal Use Software Should be Strengthened	Census Finance Division review internal use software journal entries, including the amortization calculation and completion date, before recording this information in CAMS.	Completed.
E2 – E4	Controls over Accounting for Reimbursable Agreement Authority Should be Strengthened	Census Acquisition Division adhere to their policy of recording all agreements in a tracking system. Send a copy of the tracking report to all project managers and the Finance Division on a weekly basis. Enforce the project managers' and Finance Division's accountability for the tracking report reviews to ensure sufficient follow-up with the customer and completeness of transactions recorded in the financial system.	Open (see comments in Exhibit D).
E5	Fund Balance with Treasury Reconciling Items Should be Adjusted to the General Ledger Timely	Take steps to ensure that reconciling adjustments are promptly recorded in the general ledger.	Open (see comments in Exhibit D).

**U.S. Department of Commerce  
Status of Prior Year Management Letter Comments, Continued  
Bureau of the Census**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
E6 – E7	Certain Manual Adjustments Need to be Resolved	Investigate and correct any transactions violating FACTS II account relationships and provide additional oversight in the area of budgetary accounting to prevent adjustments of this magnitude in the future. Continue to research the known differences, correct the general ledger as needed, and periodically perform an analysis of budgetary versus proprietary accounts in FY 2004.	Completed.
E8	Management of Census' Working Capital Fund Needs Improvement	Census management needs to reconsider whether a 5 percent reserve is necessary for this fund, and ensure that the reserve is maintained at a consistent level.	Completed.
E9	Controls over Data Clean-up Should Continue	Census management continue reviewing accounts to clean up data files.	Completed.
E10	Census Aging Accounts Receivable Report Should be Improved	The Office of Financial Management CAMS Support Center and the Census Finance Division develop the ability to easily age all receivable accounts.	Partially open (see comments in Exhibit D).

**Department of Commerce  
FY 2004 Management Letter Comments for the  
Economic Development Administration**

***Management Review over Recorded Obligations Should be Implemented***

For 1 of 35 grant obligations tested, we noted that the obligation amount of \$683,103 per the CD 450, *Request for the Obligation of Program Funds*, was recorded twice in CAMS. The difference was subsequently corrected with an audit adjustment.

Recommendation:

We recommend that Economic Development Administration (EDA) management:

1. Establish proper controls to correct errors by periodically reviewing obligations recorded in the general ledger to validate their existence, completeness, and accuracy.

***Controls over Monitoring Excess Funds Should be Strengthened***

During our test work over cash receipts, we noted that for cash receipt items that are related to sequestered funds, EDA was not able to provide us with evidence that its Regional Offices are monitoring the grantees for the deposit of excess funds, in compliance with EDA's instructions. EDA provided us with only the notification letter sent by the EDA Regional Offices to the grantee.

Recommendation:

2. We recommend that EDA monitor the deposit of the excess funds to ensure that the grantees comply with EDA's specific instructions.

***Controls over Cash Receipts Should be Improved***

For 2 of 35 cash receipts tested, EDA did not recognize the total amount due as a receivable when it was first notified by the Department of Justice of the civil judgment. The outstanding accounts receivable balance as of September 30, 2004, was approximately \$800,000, and was subsequently recorded as an audit adjustment. In addition, EDA did not have documents to support the collection terms.

Recommendation:

3. We recommend that EDA obtain and retain all the civil judgment documentation to record and support the receivables, timely, and to support the related collection terms.

***Controls over the Review of FACTS II Information Should be Improved***

During our review of the third quarter SF-133 Report, *Budget Execution and Budgetary Resources*, we noted that EDA reported in line 1D (Net transfers) an amount of \$3,986 that is not supported by an SF-1151, *Non Expenditure Transfer Authorization*.

**Department of Commerce  
FY 2004 Management Letter Comments for the  
Economic Development Administration, Continued**

Recommendation:

4. We recommend that EDA ensure that amounts reported on the FACTS II system are properly reviewed and agreed to the general ledger prior to submission.

***The Process of Updating Goals II Enterprise System User Information Should be Strengthened***

During our review of the third quarter SF-133 Report, *Budget Execution and Budgetary Resources*, we noted that the certifier's user name for the FACTS II (Federal Agencies' Centralized Trial Balance System) submission was not properly updated to reflect the name of the current certifier.

Recommendation:

5. We recommend that EDA submit the appropriate access request form to Treasury in a timely manner, to ensure proper access to the Goals II Enterprise System. EDA submitted a request for the new certifier access to Treasury in August 2004.

***Controls over Grant Accruals Should be Improved***

During our grant accrual test work at EDA as of September 30, 2004, we noted that EDA does not compare the prior fiscal year's grant accrual to actual disbursements made in the following fiscal year, to ensure the reasonableness of its accrual.

Recommendation:

6. We recommend that EDA enhance its internal controls over year-end grant accruals to compare actual subsequent disbursements to related accruals to assess the accuracy of its grant accrual methodology.

**U.S. Department of Commerce  
Status of Prior Year Management Letter Comments  
Economic Development Administration**

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
F1 – F4	Accounting for Grant Advances and Documentation over the EDA Grant Files Should be Improved	<p>The Department enhance its grants manual by requiring the Grant Officers to forward documentation on changes in grant status to the Accounting Department, because these changes affect both the obligated and undelivered orders balances.</p> <p>EDA investigate the status of all undelivered orders and deobligate undelivered orders for expired grant awards with no proper extension document (CD-451, <i>Amendment to Financial Assistance Award</i>).</p> <p>EDA expense grant advances older than 180 days directly through CAMS or through a topside adjustment, so that the grant expense on the financial statements is correctly stated.</p> <p>EDA reverse the accruals entered under unrelated grantee vendor numbers and enter the grant accrual with a new vendor number set up solely for grant accruals.</p>	Completed.
F5	Reconciliation of Fund Balance with Treasury Should be Improved	EDA reconcile the FMS SF-6653 to the general ledger using the final trial balance for the month and verify that the FMS SF-6653 balance used in the reconciliation agrees to the actual FMS SF-6653.	Completed.

**U.S. Department of Commerce  
Status of Prior Year Management Letter Comments, Continued  
Economic Development Administration**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
F6	Accounting for Fund Balance with Treasury Should be Improved	EDA record the transactions related to suspense account 13F3875.20 in the general ledger. In addition, we recommend that EDA implement proper procedures to ensure that this account is reconciled and cleaned on a monthly basis.	Completed.

**U.S. Department of Commerce  
FY 2004 Management Letter Comments for the  
International Trade Administration**

There were no new fiscal year 2004 management letter comments related to ITA.

**Department of Commerce**  
**Status of Prior Year Management Letter Comments**  
**International Trade Administration**

<b>Recommendation Number</b>	<b>Reported Comment</b>	<b>KPMG's Recommendation</b>	<b>KPMG Assessment of Current Status</b>
G1 – G2	ITA Management Review of Time and Attendance Reports Should be Strengthened	ITA emphasize that Time and Attendance reports must be signed and dated by supervisors. The timekeeper returns time cards immediately after initialing them, to ensure that they are appropriately filed.	Completed.
G3	Approval of Time and Expense Reports at ITA's Foreign Commercial Service in Paris, France Should be Improved	FCS Paris, France ensure that all time and attendance reports are approved by a supervisor and that the Senior Commercial Officer's time and attendance is approved by the Chief of Mission or designee.	Completed.
G4	Reconciliation of Fund Balance with Treasury Should be Improved	ITA ensure that it has reconciled the FMS SF-6653 to the general ledger for all funds.	Completed.
G5	Controls over Receipt of Goods at ITA's FCS in Paris, France Should be Strengthened	FCS Paris, France stamp invoices as "received" when items are received, and prepare and sign receiving reports before payment, in accordance with the <i>Overseas Financial Policies and Procedures Manual</i> .	Completed.